

Lianhe Global has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating with Stable Outlook to Weifang City Western Investment and Development Group Co., Ltd.

HONG KONG, 27 December 2023 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BBB-’ global scale Long-term Issuer Credit Rating to Weifang City Western Investment and Development Group Co., Ltd. (“WCWID” or “the company”). The Outlook is Stable.

The Issuer Credit Rating reflects a high possibility that the People’s Government of Weicheng District, Weichang City (“Weicheng government”) would provide strong support to WCWID if needed, in light of its full ownership of WCWID, WCWID’s strategic importance as the key local investment and development company (“LIDC”) that is responsible for infrastructure construction and operation and land consolidation in Weicheng District, Weifang City (“Weicheng”), and the linkage between the Weicheng government and WCWID, including appointment and supervision of the senior management, strategic alignment, major investment and financing plan decisions and ongoing operational and financial support. In addition, the Weicheng government may face significant negative impact on its reputation and financing activities if WCWID encounters any operational and financial difficulties.

The Stable Outlook reflects our expectation that WCWID’s strategic importance would remain intact while the Weicheng government will continue to ensure WCWID’s stable operation.

Key Rating Rationales

Weicheng Government’s Ownership and Supervision: The Weicheng government holds the full ownership of WCWID through the State-owned Assets Supervision and Administration Bureau of Weicheng District (“Weicheng SASAB”). The Weicheng government is the actual controller of the company. It has the final decision-making authority and supervises the company, including management appointment, decision on its strategic development and investment plan and supervision of its major funding decisions. In addition, the Weicheng government has assessment mechanism over the company and appoints auditors to supervise the operating performance and financial position on a periodic basis.

Strategic Importance to Weicheng and Strategic Alignment: WCWID, as the key LIDC in Weicheng, is primarily responsible for the investment, development and operation of infrastructure and land consolidation projects within the region. Serving as the key entity in charge of infrastructure related projects throughout the entire district, WCWID mainly engaged in area development, urban renewal, road and pipeline construction and improvement, industrial park development and other infrastructure projects with strong regional advantages. WCWID plays an important role in promoting the economic and social development of the

region. Its business operation and development have been aligned with the government's development plans.

Ongoing Government Support: WCWID received operational and financial support from the government. WCWID received a total subsidy amount of RMB957.7 million from 2020 to the first nine months of 2023. The Weicheng government continued to inject capital, land assets and other kinds of assets into WCWID to expand its asset size. Besides, the Weicheng government will repurchase some infrastructure projects and provide policy supports to WCWID to ensure its business operation. Given that it is the key entity for infrastructure construction and operation in Weicheng, WCWID has an advantage in acquiring related resources and major projects. We believe WCWID is likely going to receive government support to support its daily business operation.

WCWID's Financial and Liquidity Position: WCWID's total assets showed a continuous growth trend in the past years and reached RMB26.6 billion at end-September 2023, mainly due to the increase of inventories and contract assets. The non-current assets of WCWID accounted for 26.1% of the total assets at end-September 2023, but the overall asset liquidity was moderate due to large amount of development cost related to the company's infrastructure projects. WCWID's financial leverage (total liabilities to total assets) was 61.3% and its adjusted debt increased to RMB12.0 billion at end-September 2023 from RMB11.5 billion at end-2021. The liquidity of WCWID was tight. At end-September 2023, WCWID had a cash balance and unused credit facilities of RMB2.1 billion (including restricted cash of RMB1.8 billion) and RMB870 million, respectively, compared with its debt due within one year of RMB4.6 billion. Having said that, WCWID has access to various financing channels, including bank loans, bond issuance and non-traditional financing, to support its debt repayment and business operations.

Economy and Fiscal Condition of Weicheng: Weicheng is a municipal district of Weifang City, Shandong Province, with a total land area of 270 square kilometers. Weicheng recorded an economic growth in 2022, achieving a GDP of RMB37.1 billion, with a year-on-year growth of 1.1%. Its GDP scale was ranked 11th among all jurisdictions of Weifang in 2022.

The Weicheng government's aggregate fiscal revenues are mainly derived from budgetary revenue and government fund income. The budgetary revenue decreased to RMB2.1 billion in 2022 from RMB2.5 billion in 2021, due to the large-scale value-added tax credit refund policy to support the economy. The Weicheng government's fiscal self-sufficiency rate was relatively high, and its budget deficit widened to 23.9% in 2022 from 9.9% in 2021. On the other hand, Weicheng's government fund income, mainly generated by land sales, slumped by 59.3% year-over-year to RMB1.7 billion in 2022, owing to the weak property market. The fiscal debt ratio of the Weicheng government, as measured by total government debt outstanding/aggregate revenue, increased to 105.5% at end-2022 from 47.2% at end-2020, mainly due to the increase in special debt.

Rating Sensitivities

We would consider downgrading WCWID's rating if (1) there is perceived weakening in support from the Weicheng government, particularly due to its reduced strategic importance with diminished government functions, or (2) there is a significant reduction of the Weicheng government's ownership of WCWID, or (3) there is a downgrade in our internal credit assessment on the Weicheng government.

We would consider upgrading WCWID's rating if (1) there is strengthened support from the Weicheng government, or (2) there is an upgrade in our internal credit assessment on the Weicheng government.

About Lianhe Global

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

Rating Methodology

The principal methodology used in this WCWID's rating is Lianhe Global's China Local Investment and Development Companies Criteria published on 5 December 2022, which can be found at the website www.lhratingsglobal.com.

Note: The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

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